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What Alfa Wants

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Peter Aven tells President Putin about the group's plans

Alfa Group is no longer satisfied with the role of a minority shareholder in the telecommunications business. Yesterday, Peter Aven, president of Alfa Bank, told President Vladimir Putin that the group would like to "create a large telecommunications company" with its main assets in Russia, where Alfa would also be "the leading shareholder."

Alfa Group manages telecommunications business through Altimio. It has 32.9% of Vimpelcom's voting shares, 25.1% of MegaFon's shares, a 30% stake in Golden Telecom (an alternative fixed-line operator), 43.5% of the Ukrainian operator Kyivstar and 13.22% of Turkcell, the largest mobile operator in Turkey. The value of these assets of the company is estimated at over \$8 billion.

According to the official records of the meeting, the conversation between Aven and Putin started with the head of state inquiring about the state of affairs at Alfa Bank. However, the President soon recalled that banking is "not the only field of business" of Alfa Group. Aven responded that its business is actively developing: in particular, last fall the group entered the market in Turkey (it acquired 13.2% of Turkcell for \$1.59 billion. – *Vedomosti*). "Nevertheless, above all else, we still want to be a Russian company," emphasized Aven. "Of course it is very good that we have assets in Turkey, but our main field of interest is... the former Soviet Union." "We would like to create a large telecommunications company, where we would be the leading shareholder, with ... its main assets in Russia and, further on, in the CIS," he concluded.

Aven's words do not meld well with a statement made last year by Mikhail Fridman, the main co-owner of Alfa Group. At that time he told the *Financial Times* that he wished to create a global operator based on a major international company. "The past few years have shown that the future belongs to global companies such as Vodafone and Orange, and we are much more interested being a minority investor in a larger multinational company, than remain investors in several national companies," Mr. Fridman said. "Today, together with Telenor we own Kievstar, GT and VimpelCom; and with TeliaSonera we own MegaFon and Turkcell," says Altimio CEO Alexei Reznikov. "But these relations are those of co-owners and do not entail a strategic partnership. It would make sense to unite our opportunities as a local partner with experience in emerging markets and the experience of a major company in the West... As a result a major global mobile telecommunications company could be created."

Yesterday Reznikov would not comment upon Aven's statement. Alfa Bank's press service could not also explain what the head of the bank meant. Aven could not be reached for comment.

At issue is the consolidation of Alfa's telecommunications assets on the basis of one of its subsidiaries, for example, VimpelCom, said a source within Alfa Group. It must have Russian owners, but it could be registered wherever convenient, he added. Alfa's stake in the concern "must be considerable," but not necessarily a controlling one, said another source in the group. According to both, of utmost importance is that other co-owners in the company also could not control it, and that the company hold no less than 50% stakes in its subsidiaries. The entire strategy of the Alfa Group in the telecommunications market has changed: if before the group positioned itself as a financial investor, now it strives to become a strategic investor, said a third source at Alfa.

All of those conditions satisfy VimpelCom. Altimio holds a weighty stake in the company (32.9% of voting shares) and no other owners hold larger stakes. Telenor holds 26.6% of voting shares, and about 40% are traded as ADRs on the New York Stock Exchange. VimpelCom controls companies in Kazakhstan, Uzbekistan, Tajikistan, Georgia and Ukraine. VimpelCom spokeswoman Julia Ostroukhova said that shareholders had not addressed the company with offers to consolidate on the basis of Alfa assets.

The practice of seeking agreement in the Kremlin for decisions is not new for Alfa, said Dmitry Badovsky from the Social Systems Investigative Center. Aven yesterday thanked the president for his help in setting up the Turkcell purchase. Keeping control over assets in Russia and the CIS in the hands of Russian businessmen corresponds with the government's approach, said Yuly Matevosov, director of analysis for Dresdner Kleinwort. According to Matevosov, in return, Alfa can count on the Kremlin's loyalty in the group's upcoming deals.

But experts can only guess as to what those deals could be. Badovsky does not rule out that Alfa may request assistance in resolving the conflict with Telenor, which came up over VimpelCom's entry into the Ukrainian market. Kjell Morten Johnsen, head of Telenor in Russia, did not venture to discuss possible re-distributions of VimpelCom stakes. And Alfa's rights to 25.1% of MegaFon are being challenged by the Bermuda-registered IPOC fund. It was not possible to reach Jeffrey Galmond, the Dutch lawyer who says he is the beneficiary of the IPOC fund. And Michael Kongstad, vice president of TeliaSonera, which holds 35.6% of Megafon and 37% of Turkcell, remarked that his company was in negotiations with "various partners in those companies."